

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

DOCKET NO. 2001-398

December 13, 2001

NORTHERN UTILITIES, INC.,
Petition for Authority to Implement
Therm Billing

ORDER

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

I. SUMMARY

We have considered whether it is appropriate to initiate a base rate investigation case for the Maine Division of Northern Utilities (Northern, NU or the Company). We conclude, for the reasons stated herein, that it is not appropriate at the present time.

II. PROCEDURAL HISTORY

On June 13, 2001, Northern filed its Notice of Intent to file a request for authority to implement therm billing (as opposed to billing by cubic feet) in Maine in a manner it claimed would be revenue neutral relative to a 1996 test year used in Northern's most recent rate design case, *Northern Utilities, Inc., Request for Approval of Rate Design and Partial Unbundling Proposal*, Docket No. 97-393, Order (Part I) (Sept. 3, 1999). By Order dated July 25, 2001 in this docket, we found that the Company's request would have resulted in a rate increase and denied the request, noting the following:

... a rate case for Northern might be a worthwhile exercise, both because it has not had a base rate case for almost 20 years and because such a rate case might serve as the starting point for an alternative rate plan... we will direct our staff to consider whether we should open a base rate case for Northern on our own motion.

Order at 4.

Advisory Staff issued its recommendation on this matter on November 16, 2001. In developing its recommendation not to initiate a rate case at this time, Staff considered factors such as Northern's present reorganization status and other pending policy and rate matters. Comments generally supporting the

Staff's recommendation were filed by the Office of the Public Advocate and Northern on December 5, 2001. We deliberated this matter on December 12, 2001.

III. ANALYSIS

Although it has been many years since the last base rate case in Maine for NU, we believe that it is not appropriate to open an investigation at this particular time. There are two primary reasons for delaying the initiation of a rate case.

First, the Company is in the process of filing a rate case for its New Hampshire Division. Maine Staff will intervene as an interested party and monitor the progress of that case. Monitoring the proceeding for traditional revenue requirement elements, such as the demand forecast, operating expenses, affiliate transactions and cost of capital, will give us a rough indication of Maine's distribution revenue requirement. Having this information will provide a benchmark against which the Company's current Maine rates can be compared.

Our other primary reason for recommending that the Commission postpone the initiation of a rate case is Northern's recent reorganization activity. Since the last Northern rate case there have been two major reorganizations involving NU's parent companies. In early 1998, Bay State Gas Company agreed to be acquired by Northern Indiana Public Service Company (NIPSCO) Industries of Indiana. See *Northern Utilities, Inc., Request for Approval of Reorganization, Merger with NIPSCO Industries*, Docket No. 98-216. In 2000, NiSource, Inc., (formerly NIPSCO Industries) agreed to acquire the Columbia Energy Group (Columbia) of Virginia. See *Northern Utilities, Inc., Request for Approval of Reorganization, Merger and Related Transactions*, Docket No. 2000-322.

Both transactions promised significant operating expense savings at the corporate level, some of which would eventually be flowed to individual operating companies including Northern. NU's parent companies also suggested that there would be benefits generated in Maine and New Hampshire based on customer growth initiatives that would be undertaken post-merger. The Bay State/NIPSCO merger closed on February 12, 1999, while the NiSource/Columbia merger closed on November 1, 2000. While it may have been possible in September or October 2000 to examine a historical test year that showed how merger benefits from the Bay State/NIPSCO combination may have flowed to Northern, the picture would have become clouded by the announcement of the NiSource/Columbia merger in early 2000. With the NiSource/Columbia merger only having closed within the past 12 months, it is highly unlikely at this time that

the full benefit of merger-related cost savings or growth initiatives could be reflected in a historical NU test year for at least another few months.¹

We therefore see benefits in waiting until at least some time in 2002 when the New Hampshire rate case is further along and a test year can be examined that reflects a full year of operations under the new management structure. This view is consistent with the Commission's recent decision issued in *Office of the Public Advocate's Petition to Investigate Revenues and Rates of Northern Utilities, Inc.*, Docket No. 99-901, Order (Aug. 1, 2001), in which it stated that "any recent historical test year prior to 2001 will not adequately reflect NiSource/Columbia merger savings flowing to NU." In addition, waiting would allow us to continue to explore whether to pursue the possibility of an incentive regulation plan for NU (which could follow closely after a general rate case), to review management service contracts between NU and affiliates other than Bay State Gas (which NU has indicated to Staff it plans to file very soon), and to consider matters such as the financial hedging policy filed by the Company in *Northern Utilities, Inc., Petition for Approval of the Use of Financial Instruments as Part of a Hedging Program*, Docket No. 2001-679.

IV. CONCLUSION

For the reasons stated herein, we will not open a rate case for Northern Utilities' Maine Division at the present time.

Dated at Augusta, Maine, this 13th day of December, 2001.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
 Nugent
 Diamond

¹ We note that the Company is currently implementing a further round of merger-related staff and facilities cuts impacting Maine. This suggests there will be even further cost reductions in its operations to be incorporated into its next rate case.

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within 30 days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.